



## STATE BOARD OF EQUALIZATION STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced:	02/07/03	Bill No:	AB 322
Tax:	Property	Author:	Para
Board Position:		Related Bills:	SB 764 (Morrow)

### BILL SUMMARY

This bill would provide that a disabled veteran receiving the disabled veterans' property tax exemption on their home would continue to receive the exemption after the veteran no longer resides in the home because he or she has been confined to a care facility or hospital.

### ANALYSIS

#### Current Law

Article XIII, Section 4 of the California Constitution provides that the Legislature may exempt from property tax, in whole or in part, the home of a person or a person's spouse, including an unmarried surviving spouse, if the person, because of injury incurred in military service, is totally disabled. This exemption is commonly referred to as the "disabled veterans' exemption." The disabled veterans' exemption is also available to the surviving spouse of a person who has died as a result of a service connected injury or death while on active duty in military service.

Revenue and Taxation Code Section 205.5 provides that the disabled veterans' exemption is available to property that constitutes the **principal place of residence** of a veteran who has a disability rating at 100% or has a disability compensation rating at 100% because he or she is unable to secure or follow a substantially gainful occupation. The exemption is available in two amounts:

- \$100,000 for qualified persons, hereafter referred to as the "basic exemption" which is provided on a one time filing basis, and
- \$150,000 for qualified persons with low incomes, as specified, hereafter referred to as the "low income exemption" which requires a first time filing and subsequent annual filings to reaffirm income eligibility. For the 2003 assessment year, the household income limit is \$42,814.

Existing law provides that a property is not eligible for the disabled veteran's property tax exemption if the owner does not occupy the property as his or her principal place of residence on the lien date. Revenue and Taxation Code Section 279 provides that a claim for the disabled veterans' property tax exemption, once granted, shall remain in effect until:

- title to the property changes,

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- the owner does not occupy the home as their principal place of residence on the lien date,
- the veteran is no longer disabled as defined in Section 205.5, or
- the property is altered so that it is no longer a residence.

### Proposed Law

This measure would amend Section 205.5 of the Revenue and Taxation Code to provide that property is deemed to be the principal place of residence of a disabled veteran who is confined to a hospital or other care facility, if that property would be that veteran's principal place of residence were it not for his or her confinement to a hospital or other care facility. Existing law provides that a property is ineligible for the exemption if a disabled veteran or the surviving spouse of a disabled veteran does not occupy the property as his or her principal place of residence on the lien date. Existing law is silent as to the specific issue where the reason for not residing in the property is confinement to a hospital or other care facility.

In addition, this measure would make corresponding amendments to Section 279 which provides that a disabled veteran's exemption, once granted, will remain in continuous effect.

### Background

The following table lists the number of disabled veterans' exemptions claimed in each of the 58 counties.

San Diego	3349	Merced	242
Los Angeles	1386	Placer	231
Sacramento	1317	San Mateo	204
Riverside	1192	Tulare	200
Solano	1000	San Luis Obispo	178
San Bernardino	975	El Dorado	176
Orange	967	Marin	174
Monterey	766	Humboldt	153
Contra Costa	590	Nevada	141
Santa Clara	493	Lake	138
Alameda	471	San Francisco	132
Shasta	455	Sutter	126
Ventura	435	Mendocino	126
Fresno	428	Santa Cruz	118
Sonoma	354	Yuba	112
San Joaquin	329	Tehama	100
Stanislaus	300	Napa	99
Kern	287	Kings	95
Butte	281	Madera	85
Santa Barbara	267	Tuolumne	70

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Calaveras	59	San Benito	20
Yolo	58	Glenn	16
Del Norte	55	Modoc	12
Siskiyou	48	Colusa	11
Mariposa	45	Inyo	8
Imperial	41	Sierra	5
Amador	38	Mono	2
Plumas	33	Alpine	1
Lassen	25		
Trinity	22		

## COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by the California Association of County Veteran's Services Officers. Its intent is to ensure that a disabled veteran who enters a rest home will continue to receive the exemption on his or her home. The practice of some counties is to pull the exemption in this situation.
2. **Statement of Legislative Intent.** The statement of intent provides that the Legislature finds and declares the following:
  - There are many disabled veterans who own property that qualifies for the disabled veterans' property tax exemption, but due to the fact that these disabled veterans are confined to hospitals or other medical institutions they are unable to occupy that property as their principal places of residence. In many cases the spouses of these disabled veterans continue to occupy the property as their principle places of residence.
  - It is the intent of the Legislature in enacting this act to amend the Revenue and Taxation Code to conform with the California Constitution to further extend the disabled veterans' property tax exemption to property owned by spouses of living disabled veterans, and to extend the veterans' property tax exemption to an otherwise qualifying veteran who is unable to occupy that property as his or her principal place of residence because he or she is confined to a hospital or other care facility.
3. **Spouse Residing in the Home.** This bill codifies the existing practices of many, but not all, counties in the situation where a disabled veteran enters a rest home and a spouse continues to reside in the home. Many counties allow the exemption to remain on the property under the rationale that the absence from the home is temporary. However, a few counties consider the home to be ineligible for the exemption due to the technicality that it is no longer "the principal place of residence" of the veteran even when a spouse is residing in the home. In these counties, if the veteran were to subsequently die, the home would requalify for the exemption since unmarried surviving spouses are eligible for the disabled veterans' exemption.

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4. **Vacant Home.** This bill would codify the existing practices of some, but not all, counties in the situation where a disabled veteran enters a care facility and the home is left vacant.
5. **Rented Home.** If the home is rented or leased, the assessment practice of most counties is to disqualify the home from receiving the exemption.
6. **This bill would allow the exemption to remain even if the property were to be rented or leased.** It is arguable whether the exemption should continue in this instance. It is unclear if this is the bill's intent or an oversight.
7. **Existing law and regulations are silent on this issue.** However, there is BOE guidance on this subject as it relates to the homeowners' exemption. Letter to Assessors 82/50 advises that a homeowner's "temporary absence" from a home would not disqualify the home from the homeowner's exemption provided the home is not rented or leased to others on the lien date. With respect to the situation where a parent is confined to a rest home and an adult child resides in the home, BOE has advised that if the parent is expected to return and rent is not charged, the homeowner's exemption may continue. However, an absence of more than one year might raise questions as to whether the home is still the parent's principal residence. Some counties have extended this written advice to the disabled veterans' exemption.
8. **Related Bill.** SB 764 (Morrow) would increase the disabled veterans' exemption to \$200,000 for the basic exemption and \$250,000 for the low-income exemption.

## **COST ESTIMATE**

With respect to property taxes, the Board would incur some minor absorbable costs in informing and advising local county assessors, the public, and staff of the law changes.

## **REVENUE ESTIMATE**

Existing law provides that a disabled veteran's property tax exemption may be revoked if the owner does not occupy the property as his or her principal place of residence on the property tax lien date. In some counties this includes instances when the disabled veteran is confined to a hospital or other care facility for an extended period of time. Staff estimates that fewer than 20 disabled veteran's property tax exemptions were revoked as a result of the veteran's confinement to a hospital or other care facility during 2001-02.

In the case of a disabled veteran having his or her exemption revoked, the veteran and/or the veteran's spouse could then claim the standard homeowners' exemption in the amount of \$7,000. The state is required to pay subventions to counties for the homeowners' exemptions to offset the resulting local property tax loss. The state reimbursement to the counties for 2001-02 totaled \$405,460,000 on 5.3 million claims.

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The total exempt value on these properties was \$37,115,077,000. Therefore, the average tax rate for properties receiving the homeowners' exemption is:

$$\$405,460,000 / \$37,115,077,000, \text{ or } 1.092\%$$

Therefore, the state cost of each homeowner's exemption reimbursement is as follows:

$$\$7,000 \times 1.092\% = \$76.44$$

Under this bill, those disabled veterans claiming the standard homeowners' exemption would now be eligible to claim the disabled veterans' property tax exemption, the maximum amount being \$150,000. The result is an estimated savings for the state as follows:

$$\$76.44 \times 20 \text{ revoked exemptions} = \$1,529$$

Unlike the standard homeowner's exemption, the disabled veteran property tax exemption is not reimbursed by the state to the counties. Since the maximum disabled veteran exemption is \$150,000, the maximum loss per claim can be computed:

$$\$150,000 \times 1\%(\text{basic tax rate}) = \$1,500$$

### Revenue Summary

This bill would result in net savings for the state of approximately \$1,529 annually in homeowners' reimbursements. The revenue loss to local government at the basic 1% property tax rate would be less than \$1,500 x 20, or \$30,000 annually.

Analysis prepared by:	Rose Marie Kinnee	916-445-6777	3/11/03
Revenue estimate by:	Chris Butler	916-445-0840	
Contact:	Margaret S. Shedd	916-322-2376	

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